Advising the Congress on Medicare issues

Improving traditional Medicare's benefit design

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April 9, 2009

MEDPAC

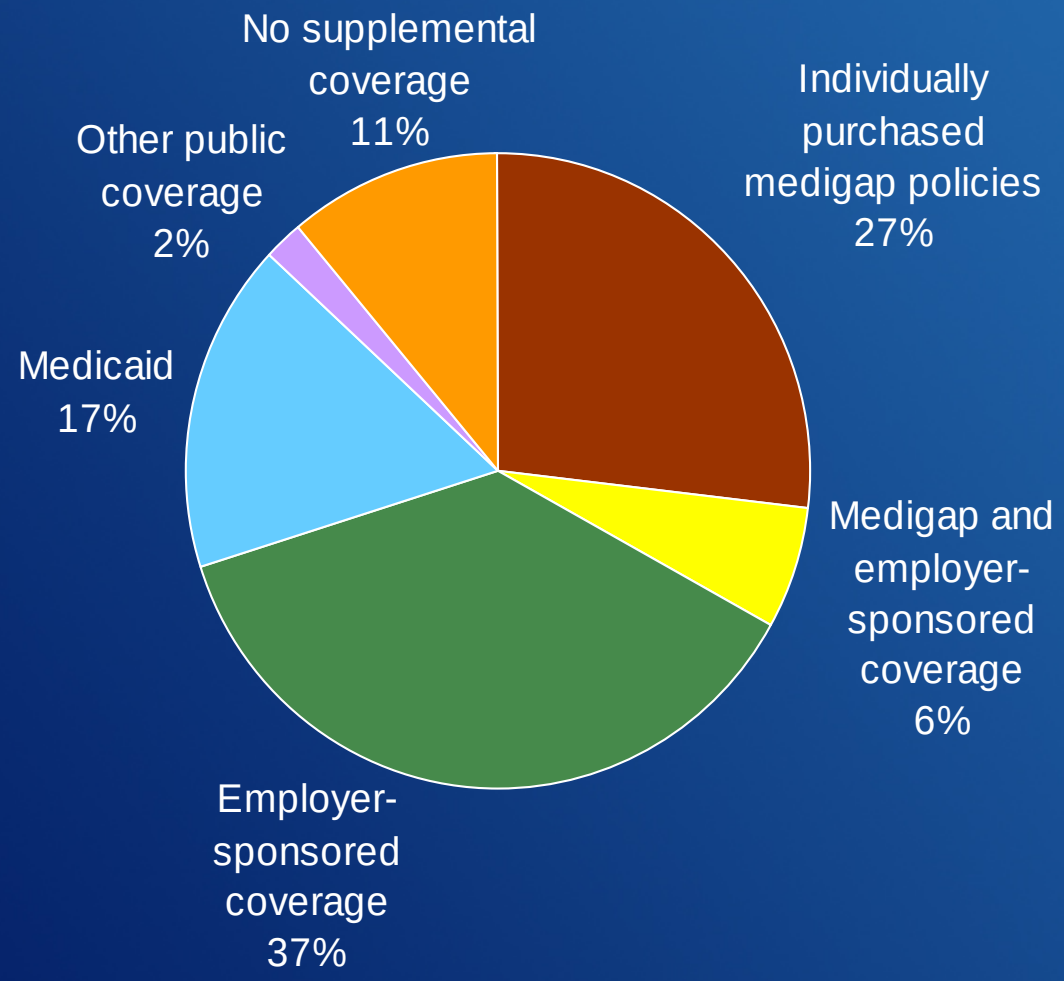
Review of March presentation

- Supplemental coverage associated with significantly higher Medicare spending
  - For Part B services
  - “Emergency” and “urgent” admissions unaffected
  - More office-based, specialist, and preventive care
  - Beneficiaries with serious chronic illness somewhat less sensitive to cost sharing, but they do not ignore it entirely
- Suggestive that Medicare could use FFS cost sharing to encourage or discourage types of care

Questions from March presentation

- Across every category of supplemental insurance, paying little out of pocket is associated with higher Medicare spending
- Secondary insurance has moderate effect for low-income individuals

Most FFS beneficiaries have supplemental coverage that fills in Medicare cost sharing



Source: MedPAC analysis of MCBS, Cost & Use files, 2005.

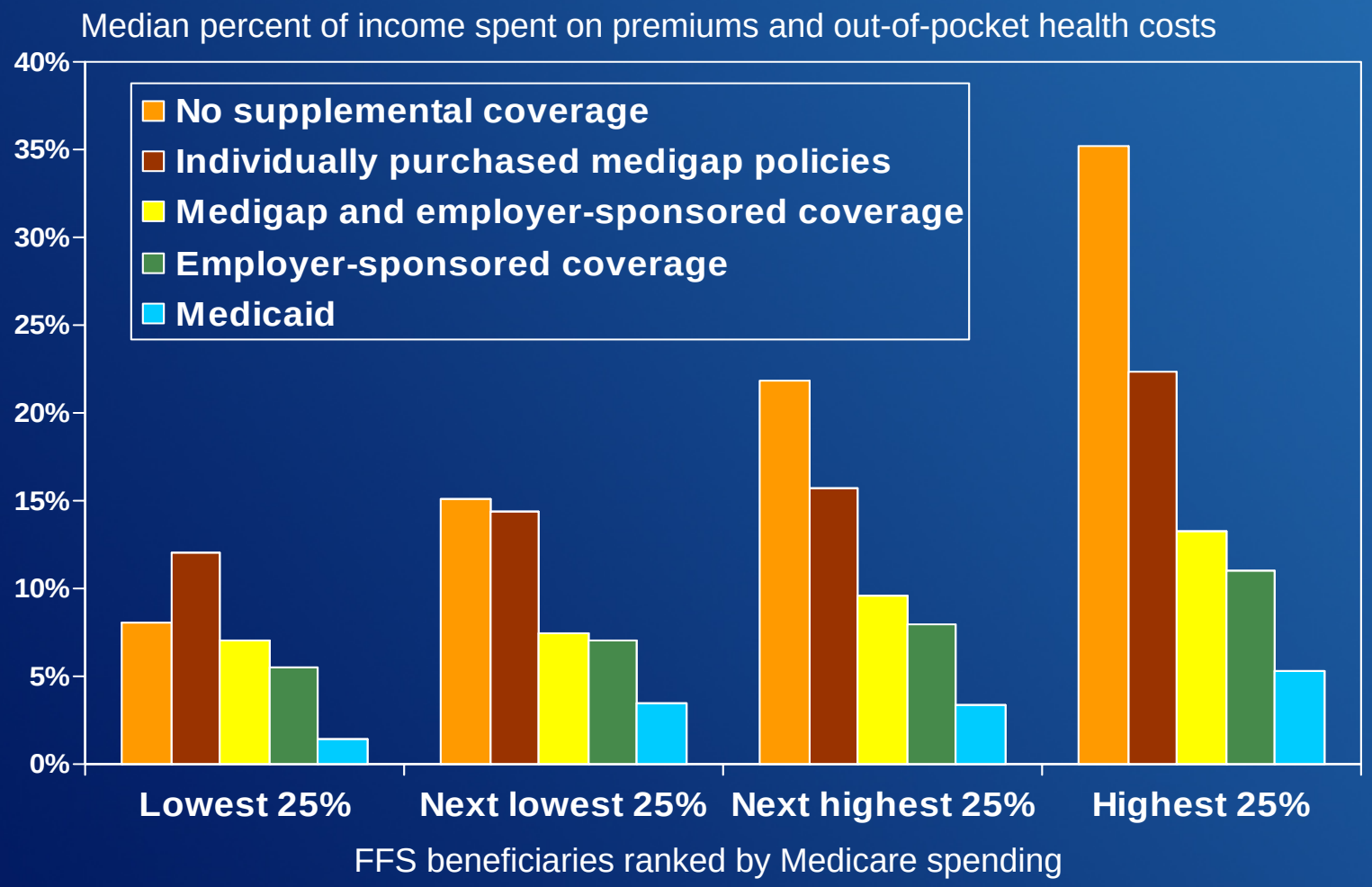
Design of health insurance

- Reduce beneficiaries' exposure to risk
- Leave some spending unreimbursed to deter use of lower-value services
- Knowing a service's relative value is the hard part

Problems with the status quo

- FFS benefit design leads to highly concentrated cost sharing
  - No out-of-pocket protection
  - High inpatient deductible, low Part B deductible
- Unequal access to supplemental coverage
  - Employer-sponsored retiree coverage
  - Medigaps for younger disabled
  - Medicaid eligibility and outreach
  - Wide variation in supplemental premiums
- Supplemental insurance associated with higher Medicare spending
- Medicare cannot use cost sharing as a policy tool

Across FFS beneficiaries, financial burden of health spending varies considerably



Source: MedPAC analysis of MCBS, Cost & Use files, 2005.

Potential goals for FFS cost sharing

- Improve financial protection and distribute cost sharing more evenly
- Address Medicare's financial sustainability
- Encourage use of high-value services, discourage use of low-value services
- Reinforce payment system reforms

Improve financial protection and distribute cost sharing more evenly

- Add out-of-pocket cap
- Combined deductible
- Distributional implications of “evening out” cost sharing

Address Medicare's financial sustainability

- Raise FFS cost sharing
  - Would reduce Medicare's benefit obligation
  - Balance against concern about barriers to care for beneficiaries with limited incomes
- Set limits on supplemental coverage
  - Coverage rules
  - Excise tax
- Set priorities in what Medicare will pay for

Encourage use of high-value services, discourage use of low-value services

- Set different cost sharing for the same service based on clinical benefit
  - Lower cost sharing for an entire class of therapies, e.g., anti-diabetic drugs
  - Lower cost sharing that subpopulations pay for certain therapies when clinical benefit is high
- Could raise quality, but could also raise cost
- Need deeper base of knowledge to use targeted approach most effectively

Reinforce payment system reforms

- Tiered cost sharing to steer beneficiaries toward:
  - Providers with higher quality, lower resource use
  - Designated care managers, e.g., medical homes
- Higher cost sharing to decrease inappropriate volume

Questions for discussion

- Should some goals for FFS cost sharing take priority over others?
  - “Even out” FFS cost sharing first?
  - Limits on supplemental coverage?
  - Move toward value-based designs over time?
- What do proponents envision for value-based insurance design in the context of FFS Medicare?